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RUEHUL/AMEMBASSY SEOUL 8039
RUEHKO/AMEMBASSY TOKYO 5600
RUEHCN/AMCONSUL CHENGDU 1363
RUEHCHI/AMCONSUL CHIANG MAI 1412
RUEHCI/AMCONSUL KOLKATA 0231
RUEATRS/DEPT OF TREASURY WASHDC
RUEHGV/USMISSION GENEVA 3535
RHEHNSC/NSC WASHDC
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C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000156

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STATE FOR EAP/MLS; INR/EAP; OES FOR JMOTKE AND ACOVINGTON;
EAP FOR JYAMAMOTO; EEB FOR TSAEGER
PACOM FOR FPA;
TREASURY FOR OASIA:SCHUN

E.O. 12958: DECL: 02/28/2018
TAGS: [ECON](#) [ENRG](#) [PGOV](#) [EPET](#) [BM](#)
SUBJECT: BURMA: STILL NO SALE OF SHWE GAS

REF: A. RANGOON 003

[1](#)B. 07 RANGOON 1122

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4
(b and d)

[1](#)1. (C) Summary. Despite announcements that Daewoo would begin selling gas to China by 2011, PetroChina and Daewoo have yet to sign the final sales agreement. According to Chevron's David Peters, before PetroChina will agree to a gas price, it must first determine the overall cost of the 900-mile pipeline to ensure that it makes a profit. Additionally, PetroChina remains concerned that the Shwe Gas fields, with its 3 trillion cubic feet of certified reserves, will not produce enough gas to make the pipeline financially viable. Daewoo will continue exploratory drilling in the A3 block in 2008, in an effort to locate additional reserves. Thailand's PTTEP and China's CNOOC signed an agreement last week to swap 20 percent shares in their offshore blocks, enabling the companies to minimize the financial risk of exploration. CNOOC will receive 20 percent shares in PTTEP's M3 and M4 blocks, while PTTEP will receive 20 percent shares of CNOOC's A4 block and onshore C1 block. CNOOC and PTTEP plan to begin exploration of M3 and M4 blocks in 2008. End Summary.

Shwe Gas Contract Delayed

[1](#)2. (C) Despite announcements that Daewoo would sell Shwe Gas to China (Ref A), Daewoo and PetroChina have yet to ink the final sales contract, Chevron representative David Peters told us. The two companies continue to negotiate over the final sale price, which will depend upon the total cost of

pipeline construction and how much gas Daewoo can produce from the Shwe fields. According to Peters, PetroChina recently began its pre-engineering studies to determine the cost of pipeline development, a process that can take up to one year. Conservative estimates place pipeline construction costs at \$1 billion, although Peters opined that due to the length of the pipeline (more than 900 miles) and the rough geographical terrain that it will cover, total cost will likely be in the \$2-3 billion range. PetroChina is unwilling to set a price for gas until it knows that it will make a profit from this deal, he continued.

13. (C) PetroChina also has concerns about the amount of gas that the Shwe fields will produce. According to Daewoo, the largest gas field in the A1 and A3 blocks holds 3 trillion cubic feet of certified reserves. The reserves currently do not justify the pipeline, so PetroChina wants Daewoo to confirm additional reserves before it signs a sales agreement, Peters stated. Daewoo Drilling Manager Bruce Leach told us that Daewoo, which believes the Shwe fields hold more than 5 trillion cubic feet of gas, has plans to drill five additional exploration wells in the shallow waters of the A3 block in 2008. Once Daewoo secures a rig, it will conduct exploratory drilling in deeper waters, although this will cost the company an estimated \$60 million per well.

14. (C) The Shwe Gas will go to China, although not by China's predicted date of 2011, Peters declared. The Daewoo-PetroChina agreement will likely be signed by the end of 2008, he stated. In the meantime, Daewoo will continue exploratory drilling in the hopes of finding more reserves, although exploration often takes 3-4 years. Additionally, CNOOC, which controls the A4 block directly below the Shwe Gas fields, will begin limited exploration in 2008. If the Shwe fields alone do not yield enough gas to warrant the pipeline, Daewoo and other companies with confirmed reserves

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may have to pool gas resources in order to sell to China, Peters noted. This scenario would delay Shwe gas production another three to four years.

15. (C) Peters informed us that the Burmese Government and PetroChina will sign another memorandum of understanding for the Shwe Gas pipeline by April. According to Peters, the GOB will allow PetroChina to take the lead in building and operating the pipeline, although Daewoo and its consortium partners have the option to join PetroChina in the gas transportation process. The Myanmar Oil and Gas Enterprise (MOGE) will not be a financial participant in the pipeline development process, although it may offer to provide labor to PetroChina.

Thai/Chinese Block Sharing Agreement

16. (C) Thailand's PTT Exploration and Production Company (PTTEP) continues to look for ways to develop its four offshore blocks, M3, M4, M7, and M9. Although PTTEP announced in November that it was looking for foreign partners to help develop its M9 block (Ref B), it recently signed an agreement with CNOOC to develop blocks M3 and M4. Per the agreement, CNOOC received a 20 percent stake in PTTEP's M3 and M4 blocks while PTTEP received a 20 percent share in CNOOC's offshore block A4 (next to the Shwe gas fields) and onshore block C1 (in Sagaing Division). PTTEP and CNOOC will begin seismic surveys in M3 and M4 in 2008, with possible exploratory drilling in late 2008.

17. (C) Peters opined that the deal benefited PTTEP, which lacks the knowledge, experience, and finances to develop its offshore blocks. Exploratory drilling costs an average of \$20 million per well, Peters explained. Per its production sharing contract with the Burmese Government, PTTEP must drill at least five wells in the M3 and M4 blocks, a financial commitment of up to \$150 million. By bringing in

Chinese investors, PTTEP reduces its overall financial risk while encouraging CNOOC to engage in aggressive exploration of the blocks, Peters stated.

18. (C) Peters questioned CNOOC's decision to swap assets with PTTEP, given that the gas reserves of the M3 and M4 blocks remain unknown. PTTEP claims that the fields hold an estimated 40 trillion cubic feet of gas, although other oil and gas companies believe the amount to be substantially lower, at less than 3 trillion cubic feet. The Chinese are desperate for resources, Peters noted, and thus are looking to secure interests in any of Burma's gas fields. According to Peters, CNOOC also has limited experience developing offshore blocks on its own. He doubted whether the alliance between PTTEP and CNOOC would actually lead to faster development of the M3 and M4 blocks.

Comment

19. (C) The Chinese do not have a clear strategy for securing Burma's natural gas. Although it is in China's interest to develop the A4 block, which industry insiders believe have large natural gas reserves, CNOOC will instead help PTTEP explore the M3 and M4 blocks in 2008. Any gas found in these blocks will go to Thailand, not China, because of the geographic proximity to Thailand. While it would make good business sense for the Chinese companies in the Bay of Bengal to work together to find natural gas reserves, CNOOC and CNPC have opted to compete with each other rather than pool resources. From our standpoint, the positive news is that these delays postpone revenues going into Burmese military

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hands. Dragging it out provides hope that a democratic government will reap some of the benefits.

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